

# Paying Tax by Instalments

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**INCOME TAX**



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**Ce dépliant est aussi disponible en français sous le titre «Payer son impôt par acomptes provisionnels».**

This leaflet is only a guide. For official purposes, please refer to the Income Tax Act.

Copies of this leaflet are available free of charge from district taxation offices.

## **Notice**

### **Proposed tax amendments**

The February 15, 1984 Budget and the Ways and Means Motion tabled in the House of Commons on June 18, 1984, proposed various amendments to the Income Tax Act. Although information on these provisions has been incorporated into the text of this leaflet, the legislation associated with the Budget and the Ways and Means Motion died with the dissolution of Parliament on June 29, 1984. For more up-to-date information, please consult your district taxation office.

Many people are not aware that there are situations in which they may be required by law to pay tax in quarterly instalments.

You must make quarterly instalment payments when all of the following statements are true:

- your federal income tax for last year was more than \$400;
- your estimated federal income tax for the current year is more than \$400; and

- tax is not being deducted from at least three quarters of your current year's net income.

The February 15, 1984 Budget proposed the following amendments to rules relating to tax instalment payments:

- Individuals will not be required to pay 1984 instalments where the federal tax payable for 1984 or for 1983 is \$1,000 or less.
- Interest on deficient or late instalments of 1984 taxes will not be charged when the combined federal and provincial interest in respect of such instalments is \$25 or less.

These proposed changes will apply to the 1984 and subsequent taxation years.

## **Who should pay tax by instalments?**

Most employed people pay almost their entire amount of tax payable on a weekly or monthly basis through payroll deductions. Certain types of income, however, do not have tax deducted at source, for example capital gains, tips and gratuities, rental income, some pension payments, investment and self-employment income.

Because tax is due on income as it is earned, you cannot wait until April 30 to pay your tax owing on these types of income. You are required to pay the tax by quarterly instalments.

For example, if you receive a large amount of bond interest and it constitutes 25 per cent or more of your net income, you could be required to pay tax on the interest by quarterly instalments. This applies even though you receive your bond interest only once a year.

If you have retired recently, your income has probably changed. It is important that you take a look at your tax obligations and if required, start paying tax by instalments.

Widows suddenly faced with organizing their own financial affairs for the first time should be aware that they may be required to pay quarterly instalments of tax on their pension and investment income.

## **How to determine if you should pay by instalments**

Each year during the processing of tax returns, Revenue Canada, Taxation computers identify taxpayers who do not have tax deducted from at least three quarters of their income. If this affects you, your assessment notice will alert you that you may be required to pay tax by quarterly instalments. While the tax department does not charge interest on overdue tax instalments in that first year, it does begin to charge interest in the second year.

Until you receive your notice of assessment for the previous year's tax, you may be unaware of this requirement and as a result, may find yourself already behind on your March and June instalments for the current year, in addition to facing interest charges.

To avoid this situation, you are advised to determine for yourself whether you should be paying tax by instalments. A form T7B, "Instalment Guide for Individuals" is available to assist you in making this determination and calculating how much to pay.

## **How to calculate the amount to pay**

If you are one of the thousands of Canadians who should be paying tax by instalments, the most com-

mon way to calculate your quarterly payments is to base them on your tax payable for last year, dividing the total by four. Another method for calculating the payments is to estimate what your tax for the current year should be, again dividing by four. Taxpayers whose income has changed significantly, such as people in their first year of retirement, will find the latter method more practical. But otherwise it's generally better to base payments on last year's tax, since an estimate for the coming year could result in an interest charge if the estimate is low.

## **When and where to make your payments**

The Instalment Guide to help you calculate your instalment payments is available at all district offices. Payments should be made on or before the last day of March, June, September or December.

Any shortage between the amount paid by instalments and the actual total tax payable for the year is due when you file your return in the usual way on or before April 30. Of course, if you have overpaid your tax, you will be eligible for a refund.

Whether you pay tax in one or four instalments, payments can be made at any branch of a Canadian chartered bank, caisse populaire or credit union, or sent to the appropriate taxation centre as indicated in your Instalment Guide.

## **Farmers and fishermen**

If your chief source of income is from farming or fishing, you should also pay by instalment, but only once a year. This payment should be made on or before December 31 and should represent two thirds of your estimated tax, usually based on last

year's total. The balance of your actual tax is then due on or before April 30. However, if you're classed as a self-employed fisherman under the Unemployment Insurance Act you do not have to pay by instalment, since tax will already have been deducted from your sales.

"The Instalment Guide for Farmers and Fishermen," available at district offices, will help you to calculate your instalment payments.